

Income on International Investments of the United States

THE amount of income received from United States investments abroad rose in 1950, continuing the strong expansion which began in 1946. Income received from abroad in 1950 amounted to \$1,743 million, exclusive of undistributed earnings of \$443 million by United States-controlled foreign companies. The income received by foreigners from investments in this country was \$437 million, exclusive of undistributed earnings of about \$170 million by foreign controlled enterprises in the United States.¹

Growth of Income Receipts

Income receipts from investments abroad in 1950 were 24 percent above 1949 and were nearly double the prewar high for 1929. However, this comparison makes no allowance for large increases in price levels and changes in other international accounts in the last two decades. For instance, in 1929 foreign countries used about 17 percent of the dollar proceeds of their exports of goods and services to the United States to cover income remittances to the United States, while in 1950 such remittances used only about 15 percent.

By far the largest part of the growth in income receipts since 1946 has come from the expansion of American direct investments abroad (chart 1). These foreign operations produced increasing quantities of vitally necessary materials in a period when, except for a temporary setback in 1949, world demand was pushing prices of commodities steadily upward. Both increasing output and rising prices were important in 1950, although there was also in that year a tendency to pay out a larger proportion of earnings, and, in a few important cases, to pay dividends out of earnings of prior years.

Direct investments accounted for 84 percent of the 1950 income receipts while the return on private portfolio investments was only \$165 million, or less than 10 percent of the total, with United States Government income making up the remainder. This compares with a proportion of about 50 percent for portfolio income in 1929.

Although the value of direct investments has moved up to 70 percent of private long-term foreign investments, this fact was of lesser importance in accounting for the larger share of direct-investment income than the higher rates of return realized on these investments since 1946. From about 6 percent of book value in 1929, the earnings on direct investments went to about 15 percent in 1950. This latter figure is much closer to earnings rates in the United States than was the case in 1929.² On the other hand, the return

on private portfolio investments, which was about the same as for direct investments in 1929, about 6 percent, was down to about 3 percent in 1950. This, in part, reflects the lower interest rate structure today, but also the results of defaults, retirements, and refunding operations which scaled down the interest rates on outstanding obligations.

In 1950 the rate of return on all United States-controlled manufacturing investments abroad was about 16 percent, which was about the same as the rate of return for domestic manufacturing enterprises, excluding petroleum and automotive products.³ Of course, the industrial composition of

Table 1.—United States Income on International Investments, by Type, 1946-50

(Millions of dollars)					
Type	1929	1947	1948	1949	1950
Receipts					
Total balance-of-payments income receipts.....	826	1,146	1,275	1,405	1,743
Private.....	789	1,060	1,273	1,307	1,634
Long-term.....	784	1,070	1,200	1,286	1,624
Direct investments.....	838	924	1,111	1,143	1,409
Dividends.....	268	879	420	505	656
Interest.....	33	34	32	35	35
Branch profits.....	330	511	659	608	778
Dollar bonds.....	66	86	61	60	69
Other long-term investments.....	63	38	38	38	83
Short-term investments.....	5	10	13	11	10
United States Government.....	21	66	102	98	100
Undistributed earnings of direct-investment subsidiaries.....	308	387	581	436	443
Total earnings on United States investments abroad.....	1,113	1,533	2,986	1,641	2,184
Payments					
Total balance-of-payments income payments.....	216	249	284	353	437
Private.....	201	233	267	328	406
Long-term.....	201	233	267	328	406
Direct investments.....	76	84	109	109	136
Dividends.....	31	43	69	76	110
Interest.....	1	1	1	2	12
Branch profits.....	24	38	52	81	74
Other long-term investments.....	125	140	153	164	210
Dividends.....	103	116	138	148	190
Interest.....	22	33	20	21	20
United States Government.....	15	16	17	25	31
Undistributed earnings of direct-investment subsidiaries.....	37	80	156	143	172
Total earnings on foreign investments in the United States.....	263	339	460	496	599

¹ Payments on private short-term obligations were negligible.

Source: U. S. Department of Commerce, Office of Business Economics.

manufacturing companies in the United States and abroad differs greatly, but nearly half of the industry subgroups under manufacturing in the United States had higher rates of return than the average rate on all United States-controlled manufacturing enterprises abroad.

² Source by data on rates of return for United States industry is the National City Bank of New York monthly letter for April 1951.

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³ For definitions of terms see the technical note at the end of the article.

² Such calculated rates of return are subject to some statistical and conceptual difficulties, but the figures cited can be taken as illustrative of the change which has occurred.

An important factor in the increased earnings of direct investments was the shift in industrial composition from a high proportion, about 22 percent, of public utility holdings in the 1920's to a heavy concentration of investments in petroleum and manufacturing enterprises. These latter industries, in contrast to public utilities whose rates are closely regulated, shared more prominently both here and abroad in the world-wide expansion of demand for their products.

Government income due to increase

Interest received by the United States Government on foreign credits mounted from \$15 million in 1946 to \$109 million in 1950, and is scheduled to become considerably greater as interest payments come due on some of the larger postwar credits. The annual average amount of interest due to the United States Government on foreign credits now outstanding is about \$170 million for the 1950 decade, or about \$40 million more than the annual average received during the 1920's on the World War I loans.

Most direct-investment earnings plowed back

Over the five-year period 1946-50, American direct investments abroad earned \$7.5 billion (including interest payments to parent companies of \$174 million), but about half of this was retained abroad for investment. As shown in chart 2, earnings exceeded additions to investment in every year, and in 1950 capital additions actually fell off although earnings rose to record heights. The disposition of earnings can be accounted for as follows: (a) foreign-incorporated subsidiaries of United States companies earned \$4.6 billion in the 1946-50 period, of which \$2.4 billion was paid out as dividends and interest to parent companies and the remainder reinvested, and (b) branch profits totaled \$2.9 billion, of which about 55 percent was retained abroad, in the aggregate. Thus, out of total additions of \$5.2 billion to direct investments abroad in 1946-50, about \$3.8 billion came out of retained earnings and the remainder represented new investments of United States funds.

Results by industries

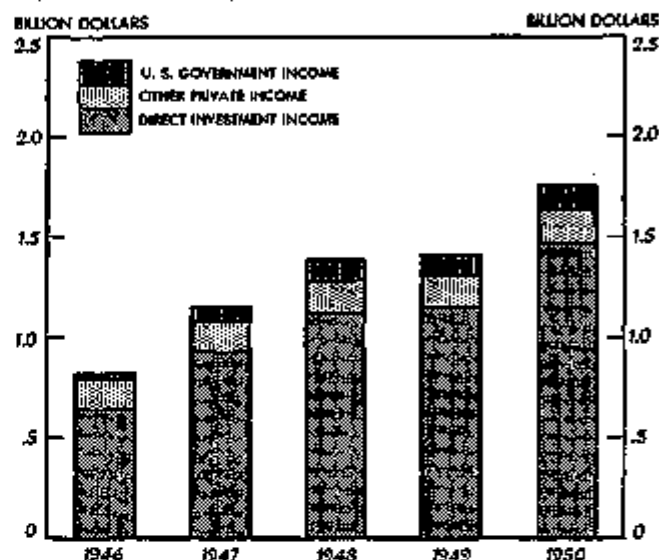
Most of the sharp rise in income receipts in 1950, as shown in table 3, was the result of very high income in the petroleum industry. However, income receipts from petroleum enterprises rose more sharply than earnings, indicating a decline in capital investment abroad from reinvested earnings by this industry. Moreover, capital outflows from the parent companies in the United States declined by an even larger amount.

Income from direct investments in other industries in 1950 did not gain so much as income in the petroleum industry; however, for these industries earnings rose more than income remittances to the United States. American investments in manufacturing enterprises abroad are about as important as petroleum enterprises so far as earnings are concerned. In 1946-50, earnings of manufacturing enterprises amounted to \$2.5 billion as compared with \$2.6 billion for petroleum. The earnings of manufacturing enterprises were more stable in this period than those of other direct investments abroad, as shown in chart 2, and did not decline in 1949, in contrast to earnings of the petroleum and mining industries. More than half the earnings and income receipts from manufacturing enterprises abroad originated in Canada, with the countries of Western Europe and Latin America accounting for most of the remainder.

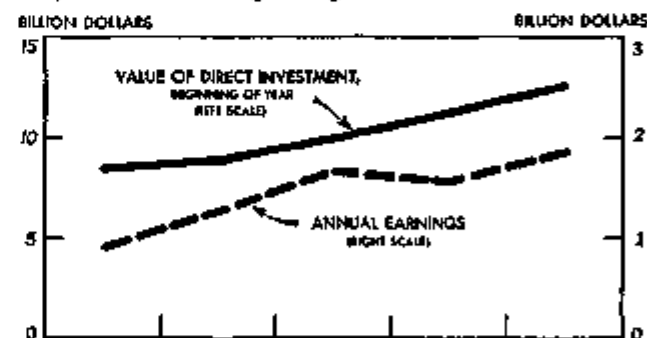
Earnings of mining and smelting enterprises fell off sharply in 1949 and then recovered to a record amount in 1950, reflecting extreme sensitivity to developments in the United States market. These enterprises are largely centered in the Western Hemisphere and showed very little tendency to expand after the war until 1950. The proportion of earnings

Chart 1

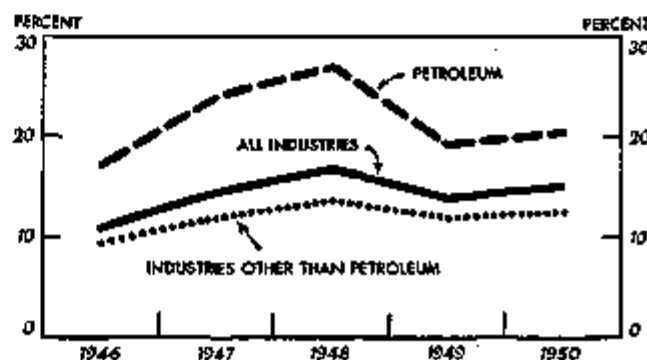
Income received from foreign investments expanded markedly from 1946 to 1950.



The increase in earnings of direct-investment companies reflected growing investments . . .



and rising rates of return for the period as a whole.



reinvested by subsidiaries in Canada was quite low prior to 1950 and then moved upward, when as shown in chart 2, an increase in capital investment in mining got under way. However some of the principal projects being developed are not yet in the income-producing stage. Earnings from foreign direct investments in other industries have not been very large and have increased only gradually.

Income on Investments by Area

Nearly 40 percent of the income received from abroad in the 1946-50 period originated in the Latin American Republics, very largely from direct investments (table 2). Increased income from Latin America was responsible for about one-third of the total rise in income receipts in this period. However, while income from every other area increased in each year after the war, income from Latin America showed a severe setback in 1949 as metal and petroleum earnings fell off. In 1950 there was a striking reversal of this situation and of the increase of about \$340 million in income received from all areas in 1950, \$240 million came from Latin America, chiefly from additional earnings of the petroleum industry. As shown in table 4, Venezuela has accounted for an increasing share of income from Latin America.

Second in importance in income receipts was Canada, accounting for 26 percent of the total received in the 1946-50 period. Although direct investments also dominated income receipts from that country, there were substantial amounts of income received on American holdings of Canadian securities denominated in both United States and Canadian dollars. However, income from these portfolio investments remained stable while direct-investment income, largely from manufacturing, more than doubled from 1946 to 1950.

Income receipts from the countries grouped under "other foreign countries" and from the dependencies of the ERP countries are derived very largely from petroleum invest-

ments. Income from these areas rose sharply, therefore, as the petroleum industry utilized large postwar additions to its capacity and output moved upward. Present indications are that petroleum earnings in these areas, largely the Middle East, will rise further as the demand for petroleum in areas serviced by the Middle East fields continues to press against the available output, although requirements to pay larger local royalties and taxes will cut into the increase.

Government income large from ERP countries

A leading feature of income receipts from the ERP countries in 1946-50 was the expansion of interest payments on United States Government credits. Interest receipts on such credits rose from \$14 million in 1946 to \$78 million in 1950 (table 2), while the increase in direct-investment income was comparatively small. The United Kingdom was the source of most of the direct-investment income, which consisted largely of returns on investments in manufacturing enterprises. By far the largest amounts of interest on United States Government credits were paid by France on credits extended soon after the war's end. However, beginning with 1951, when interest on loans to Britain becomes due, the total interest obligation of ERP countries will rise to \$180-\$165 million annually for the next few years.

Income Payments on Foreign Investments in the United States

The amount of income paid on foreign investments here is, of course, far less than the amount received, and has been less since the first World War. As shown in table 1, the excess of receipts rose from about \$600 million in 1946 to over \$1.3 billion in 1950, although the increase in payments was proportionally about the same as the increase in receipts.

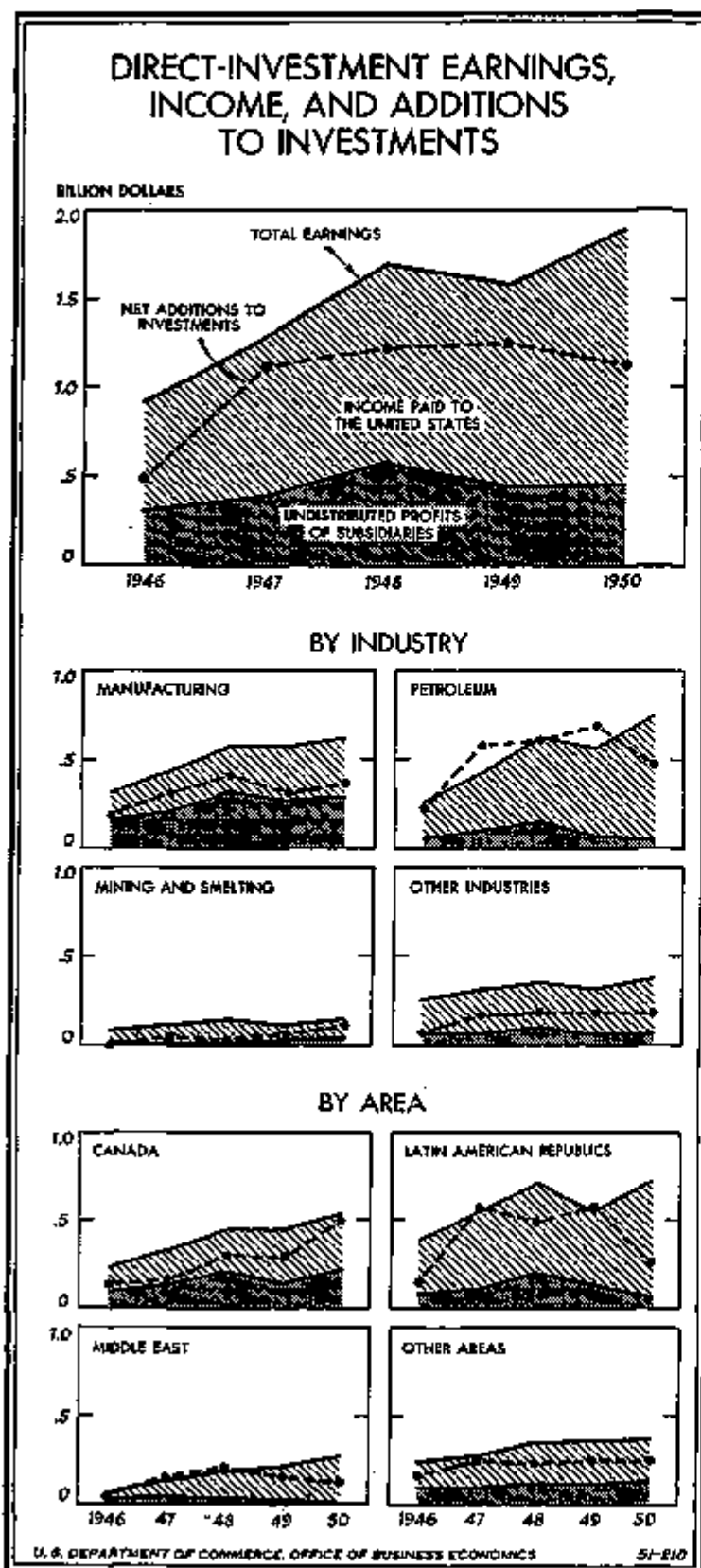
Table 2.—Investment Income Receipts and Payments, by Area, 1946-50

Area and type	1946			1947			1948			1949			1950		
	Receipts	Payments	Net	Receipts	Payments	Net	Receipts	Payments	Net	Receipts	Payments	Net	Receipts	Payments	Net
Total, all areas.....	330	216	+114	1,146	249	+897	1,315	284	+1,031	1,485	383	+1,102	1,743	437	+1,306
Direct.....	636	76	+560	924	84	+840	1,111	108	+1,003	1,148	159	+989	1,409	196	+1,213
Other private.....	153	125	+28	164	149	+15	162	153	+9	189	109	+80	165	310	-145
U. S. Government.....	21	15	+6	66	16	+50	102	17	+85	93	25	+68	108	31	+77
Canada.....	348	44	+304	302	32	+270	319	54	+265	387	66	+321	406	76	+330
Direct.....	148	25	+123	203	11	+192	223	25	+198	305	34	+271	305	39	+266
Other private.....	100	15	+85	99	19	+80	94	25	+69	92	30	+62	101	27	+74
U. S. Government.....	(1)	4	-3	(1)	2	-1	2	4	-2	(1)	7	-6	(1)	10	-9
Latin American Republics.....	324	30	+294	477	21	+456	558	12	+546	425	11	+414	595	14	+581
Direct.....	314	1	+313	451	1	+450	525	1	+524	425	(1)	+426	594	1	+593
Other private.....	15	8	+7	17	9	+8	19	10	+9	15	9	+6	15	12	+3
U. S. Government.....	5	1	+4	9	1	+8	12	1	+11	10	2	+8	14	2	+12
ERP countries.....	307	166	-139	183	183	-20	195	196	-1	202	232	-30	210	322	-112
Direct.....	64	49	+15	80	71	+9	83	82	+1	97	113	-16	108	105	+3
Other private.....	24	94	-70	30	110	-80	32	111	-79	32	180	-148	30	160	-130
U. S. Government.....	14	3	+11	43	2	+41	70	8	+62	73	4	+69	78	7	+71
ERP dependencies.....	20	2	+18	32	3	+29	75	2	+73	78	2	+76	96	3	+93
Direct.....	20	2	+18	32	3	+29	75	2	+73	77	2	+75	90	3	+87
Other private.....	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0
U. S. Government.....	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0
Other Europe.....	4	(1)	+3	11	1	+10	14	2	+12	11	3	+8	10	1	+9
Direct.....	4	(1)	+3	11	1	+10	14	2	+12	11	3	+8	10	1	+9
Other private.....	3	(1)	+2	8	(1)	+7	8	(1)	+7	8	(1)	+7	11	(1)	+10
U. S. Government.....	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0
Other foreign countries.....	97	14	+83	171	15	+156	213	13	+200	265	14	+251	310	14	+296
Direct.....	89	1	+88	163	1	+162	197	1	+196	254	1	+253	302	1	+301
Other private.....	6	0	+6	7	0	+7	8	0	+8	8	0	+8	8	0	+8
U. S. Government.....	2	7	-5	1	5	-4	2	4	-2	3	6	-3	0	4	-4
International institutions.....	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0
Direct.....	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0
Other private.....	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0
U. S. Government.....	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)	0

¹ Less than \$500,000. Source: U. S. Department of Commerce, Office of Business Economics.
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Moreover, the gap will probably continue to grow as United States investments abroad continue in much larger amounts than foreign investments in the United States.

Chart 2



Income payments mostly on portfolio investments

In contrast with United States investments abroad, foreign investors in the United States have concentrated on portfolio investments, so that of total payments abroad in the 1946-50 period of \$1.5 billion, over \$800 million was on private portfolio investments, about \$100 million was paid on long- and short-term United States Government obligations, and somewhat over \$600 million was derived from American enterprises controlled abroad.

Dividends paid abroad on foreign portfolio investments in United States corporate stocks accounted for nearly half of all income payments from 1946 to 1950 (table 1). Fluctuations in these payments are closely related to the dividend policies followed by American corporations. Much of the explanation for the continued increase in income payments to foreigners since 1946, and particularly the sharp rise in 1950, rests on this factor. Tabulations of dividends paid to foreigners in the 1946-50 period have shown that in each year payments abroad have risen at a somewhat higher rate than all United States dividend payments in spite of some reduction in foreign holdings of United States corporate stocks. This suggests that foreign holdings are centered in stock issues on which dividend rates have risen relatively sharply in recent years.

Interest payments by the United States Government are comparatively minor and result from a tendency by foreign governments and central banks to invest dollar reserves in interest-bearing securities rather than to hold them in the form of demand deposits or gold, which yield no income. Interest payments on foreign holdings of United States corporate bonds jumped for a year or two after the war as payments in arrears were made up, but then settled down to small annual amounts.

Expansion of foreign direct investments financed by earnings

Foreign-controlled companies operating in the United States depended almost entirely on earnings in the United States as a source of funds for expansion in the 1946-50 period. Total earnings of these companies for the period are estimated at \$1.2 billion. About half of this amount was paid out as dividends and branch profits, while \$600 million was retained here by the American subsidiaries of foreign companies. In addition, about \$150 million of the branch profits was added to the value of United States branches of foreign companies, primarily insurance companies, by the retention of these earnings in the United States. There were only a few minor instances of new foreign capital flowing to the United States; what appears in the United States balance of payments as capital movements to the United States from foreign parent companies was largely the branch earnings mentioned above. These are reflected in the balance of payments as current income payments, and as capital inflows to the extent they are not actually transferred abroad.

Insurance companies lead in branch profits

The insurance field is one of the few segments of American business in which foreign companies have a position of some significance. The largest operations of these companies are through United States branches rather than subsidiaries, primarily in the field of fire and marine underwriting. In this field foreign insurance companies accounted for about 15 percent of net premiums written in recent years. Out of

total estimated branch profits of \$270 million for 1946-50, insurance companies were responsible for considerably more than half. In addition, United States subsidiaries of foreign insurance companies earned about \$65 million in 1946-50, of which less than half was paid out in dividends.

In the aggregate, foreign-controlled insurance enterprises earned about \$255 million in 1946-50, more than enough to finance an increase in their value of \$205 million for the period. However, British companies, which are preeminent in this field, accounted for about \$200 million of the earnings but only about \$125 million of the increase in value. Most of the difference between these figures is accounted for by payments of \$46 million out of earnings in this period to the Reconstruction Finance Corporation as repayments on an outstanding loan to the British Government. However, in addition, British companies withdrew a sizable proportion of their earnings, while other insurance companies, principally Continental European and Canadian, added to their investment an amount equal to their earnings plus about \$30 million of new funds.

Table 3.—Direct-Investment Income Receipts by Area and Industry, 1946-1950

(In millions of dollars)

Area	Year	Manufacturing	Distribution	Agriculture	Mining and smelting	Petroleum	Public utilities	Miscellaneous	Total
Total, all areas.....	1946	158	48	74	68	284	45	41	638
	1947	230	84	94	107	223	43	43	924
	1948	248	84	80	123	472	31	58	1,111
	1949	201	95	80	88	487	39	80	1,143
	1950	228	97	98	112	736	45	84	1,469
Canada.....	1946	80	9	(1)	23	5	15	16	143
	1947	108	23	(1)	26	6	21	21	203
	1948	123	16	(1)	34	6	12	30	223
	1949	179	39	12	26	11	18	27	293
	1950	381	27	12	33	12	11	39	506
Latin American Republics.....	1946	33	21	61	43	115	30	12	314
	1947	60	22	80	74	172	23	13	481
	1948	50	23	80	94	245	19	15	525
	1949	35	24	68	44	217	21	16	425
	1950	54	36	90	64	302	33	26	694
ERP countries.....	1946	37	12	(1)	(1)	7	(1)	8	64
	1947	47	17	(1)	(1)	10	(1)	8	80
	1948	51	18	(1)	1	18	(1)	5	93
	1949	60	19	(1)	1	8	(1)	10	97
	1950	68	21	(1)	1	7	(1)	12	108
ERP dependencies.....	1946	(1)	1	1	1	17	(1)	(1)	20
	1947	(1)	2	1	1	22	(1)	(1)	32
	1948	(1)	5	1	7	59	(1)	(1)	73
	1949	13	7	1	12	64	(1)	1	97
	1950	2	2	6	9	68	(1)	3	98
Other foreign countries.....	1946	6	5	12	1	61	(1)	6	90
	1947	17	10	13	1	113	(1)	4	158
	1948	23	12	8	3	143	(1)	6	207
	1949	25	14	9	3	107	(1)	6	204
	1950	23	10	1	5	228	(1)	6	309

¹ Less than \$500,000.

Source: U. S. Department of Commerce, Office of Business Economics.

Insurance earnings are affected not only by returns on underwriting and investments, but also by unrealized gains and losses on their holdings of securities. The generally rising security market in the United States since 1945 is, therefore, partly responsible for substantial insurance company earnings.

Direct investments concentrated

Foreign-controlled enterprises operating in the United States, other than insurance companies, had earnings of about \$840 million in the 1946-50 period, out of which was derived nearly all of the \$570 million added to the foreign equity in these enterprises. Over this period United States subsidiaries of foreign companies, except insurance com-

panies, reinvested 63 percent of their earnings, or nearly the same proportion as all United States corporations, which retained about 60 percent of earnings. About 40 percent of the additions to investment were in enterprises in the petroleum industry in the United States, and a somewhat smaller proportion went into companies producing alcoholic beverages. A few large companies, mainly in these industries, accounted for a very large part of the total earnings and income payments of foreign direct investments in the United States. For example, 64 percent of all dividend payments abroad by direct-investment companies in the years 1946-50 were made by eight companies.

Most income payments go to Western Europe

Foreign investments in the United States at present represent largely a remainder of the past foreign investment activities of Western European countries, principally England, Switzerland, and the Netherlands. Only in the case of the ERP countries, as shown in table 2, do outpayments from the United States exceed receipts by any substantial margin. However, this favorable balance for ERP countries will be reduced with the assumption of the full interest burden on United States Government credits and the increased earnings to be expected from growing United States direct investments in those countries.

Next in importance to the ERP countries, which received over 70 percent of all income payments from the United States, was Canada with about 18 percent. Most of the income paid to Canada was by Canadian-controlled companies in the United States. However, although payments to Canada are fairly substantial, they were equal to only about 16 percent of United States income receipts from Canada in the 1946-50 period.

Investment Income in the United States Balance of International Payments

In the preceding discussion investment income receipts and payments have been almost entirely abstracted from the general pattern of the United States balance of payments, but a few of the interrelationships between investment income and other items in the balance of payments can be examined with the data now available.

On a quantitative basis, income receipts have accounted for 7.7 percent of all United States balance-of-payments receipts on current account for the 1946-50 period as a whole. However, the amount of income received has increased in each year while total current account receipts fell off after 1947, so that the proportion of income receipts to total receipts rose from 5.4 percent in 1946 to 11.8 percent in 1950. In the years since 1947 income receipts have been the largest receipts item in the current account of the United States except merchandise exports.

The earnings of American direct investments abroad followed the course of United States imports quite closely in 1946-50, especially from 1947 on. Earnings were more quickly influenced by changes in United States imports than income payments, since the latter are also affected by decisions as to the amount to be retained for reinvestment and by exchange controls. This was particularly evident in 1949 when both imports and earnings fell off from the previous year but income receipts rose somewhat as dividends paid out went up.

Concurrent movements in earnings and United States imports from abroad are partly the direct outcome of the fact that a considerable part of the output of direct investments abroad is sold in the United States. The exact amount of

United States imports derived from these specific companies cannot be determined, but imports of certain important commodities from certain countries can be identified, with reasonable accuracy, as coming from direct-investment companies. On the basis of a necessarily rough calculation of this kind, covering 21 important primary products, it appears that about 25 percent of United States imports in the 1948-50 period were derived from United States-controlled companies abroad.

However, although these sales to the United States were very large, amounting to about \$2.5 billion in 1950, they probably accounted for only about 30 percent of the earnings of United States-controlled companies in that year. This conclusion is derived from a limited analysis of the industrial composition of 1950 earnings of \$1.9 billion along the following lines.

Table 4.—Income Received From American Direct Investments in Selected Countries, 1946-50

(In millions of dollars)					
Area and country	1946	1947	1948	1949	1950
All areas	894	825	1,111	1,148	1,483
Canada and Newfoundland	148	269	223	295	306
Latin American Republics, total	314	461	535	435	654
Argentina	21	37	20	7	9
Brazil	20	38	38	49	70
Chile	31	44	56	35	43
Colombia	4	5	10	18	18
Cuba	38	52	55	44	60
Mexico	21	42	38	13	34
Peru	8	9	12	13	14
Uruguay	2	4	2	3	4
Venezuela	102	153	238	101	324
Other Latin American Republics	60	63	62	77	68
Undistributed	2	3	3	5	5
ERP countries, total	64	80	93	97	106
Belgium	3	3	10	9	16
Denmark	2	4	4	2	2
France	7	4	4	4	8
Portugal	2	1	2	2	3
Sweden	1	3	2	2	2
Switzerland	2	2	5	3	5
United Kingdom	46	58	58	70	62
Other ERP countries	1	2	4	1	2
Undistributed				1	2
ERP dependencies, total	20	32	73	77	90
British West Indies	1	1	6	1	1
Malaya and Hong Kong	2	6	6	11	14
Netherlands East Indies	(1)	(1)	6	16	(1)
Netherlands West Indies and Surinam	8	4	7	12	10
Other ERP dependencies	9	21	52	37	65
Other foreign countries, total	98	158	197	254	362
Australia	7	8	16	9	16
China	11	10	8	—	—
Egypt	2	3	3	4	2
India (including Burma, Ceylon, and Pak- istan)	8	14	16	19	17
Republic of the Philippines	5	33	20	20	18
Indonesia	(1)	(1)	(1)	(1)	27
Union of South Africa	6	12	13	22	23
Other foreign countries	51	97	130	172	190
Undistributed		1	2	3	3

¹ Netherlands East Indies entered under Indonesia in 1950.

² Less than \$500,000.

Source: U. S. Department of Commerce, Office of Business Economics.

Mining and smelting companies earned about \$150 million abroad in 1950. These companies produce nonferrous metals primarily, and sell so large a part of their output in the United States that it might be assumed for this purpose that they derive their whole income from the United States market. Similarly, the earnings of agricultural enterprises, \$105 million in 1950, may be assumed for this purpose to derive entirely from sales of their products, largely sugar and bananas, to the United States. Certain other industries can be assumed to earn practically nothing from sales to the United States. These would include public utilities, distribution facilities abroad, motion picture companies, insurance companies, banks, etc. The total earnings of these enterprises in 1950 amounted to about \$270 million.

Since United States-controlled manufacturing companies abroad produce a great variety of products, it is not possible

to identify them with any degree of accuracy among United States imports. However, aside from large amounts of newsprint and other forest products shipped here by direct-investment companies in Canada, most of the output of these companies is undoubtedly sold in foreign markets. Out of earnings in 1950 of about \$625 million by this industry, it is not likely that more than \$150 million resulted from sales in the United States.

Direct investment companies in the petroleum industry earned about \$750 million in 1950, partly from sales to the United States and partly from sales in foreign markets. The oil sold in the United States was largely from Latin-American fields, where costs of operation were somewhat higher than in the Middle East fields which supplied chiefly foreign markets. When an average rate of earnings per barrel of output for the major American producers in Latin America is applied to United States imports, the conclusion is that these sales to the United States accounted for a relatively small proportion of the \$750 million of earnings, say about \$175 million.

If the assumptions above are reasonable, only about \$600 million out of total direct-investment earnings of \$1.9 billion in 1950 were related directly to sales to the United States. The fact that the remaining 70 percent of earnings also responds to changes in United States imports reflects the powerful impact of the United States economy on economic activity in foreign countries.

An example of the interaction of earnings of foreign investments and the general balance of payments position of the United States is the experience of the petroleum industry in 1949. In that year petroleum earnings abroad were cut by 10 percent, although there was an increase of about 15 percent in United States imports of petroleum, largely from United States companies abroad. Foreign countries, particularly Britain, experienced deep cuts in their gold and dollar reserves resulting from large deficits with the United States in 1948 and the first half of 1949. To stop these losses they restricted dollar imports, including oil which is sold for dollars, and substituted nondollar sources of supply as far as possible. Consequently, American companies abroad were forced to reduce output, and the earnings of the companies were seriously affected.

Dollar flows originating in direct investments abroad

Another aspect of the foreign operations of direct-investment companies which can be explored to some extent is whether such operations produced more dollars through sales to the United States and capital flows from the United States than were required by the companies to finance their purchases in the United States and to transfer their earnings to the United States. This question must be limited to the dollar flows which actually occurred in 1950, insofar as they can be measured, leaving largely out of account the indirect and longer-run effects on international transactions of the activities of these companies, which cannot be handled statistically. Also, for simplicity, all earnings and capital movements are aggregated in the following discussion, although it would be desirable to examine the companies or industries separately since there are great differences among them.

The relevant data for 1950 are as follows: the companies produced about \$2.5 billion in dollar exchange through sales to the United States, as discussed above, and an additional \$400 million was provided by the outflow of new direct-investment capital from the United States, i. e., capital investment not stemming from undistributed earnings. Out of this \$2.9 billion, the companies remitted \$1.1 billion in income to the United States (derived by subtracting from total earnings of \$1.9 billion about \$800 million retained

Table 5.—Reinvested Earnings of Foreign-Incorporated Subsidiaries as a Ratio of Earnings on Common Stock, 1946-50, by Area and Industry

(In millions of dollars)

Area and industry	1946			1947			1948			1949			1950		
	Reinvested earnings	Earnings on common stock	Ratio	Reinvested earnings	Earnings on common stock	Ratio	Reinvested earnings	Earnings on common stock	Ratio	Reinvested earnings	Earnings on common stock	Ratio	Reinvested earnings	Earnings on common stock	Ratio
All areas	303	584	51.9	287	774	50.1	581	1,032	56.3	438	972	44.9	448	1,132	39.1
Manufacturing	163	291	55.4	213	404	52.8	320	639	50.0	289	545	49.3	291	591	49.2
Petroleum	40	102	39.1	103	148	70.9	153	220	69.5	75	186	41.5	45	244	18.4
All other	82	191	42.8	71	227	31.7	108	261	41.4	89	241	36.9	107	297	36.0
Canada	36	216	16.1	132	306	42.5	212	409	51.7	144	407	35.3	225	487	46.1
Manufacturing	57	136	41.9	103	203	50.9	170	288	59.0	106	284	37.7	166	338	49.0
Petroleum	3	10	30.0	11	16	68.8	22	30	73.3	12	24	50.0	21	32	65.6
All other	26	70	37.1	17	89	19.1	21	84	25.0	24	90	26.7	46	117	39.3
Latin American Republics	89	169	52.7	137	223	61.4	283	503	56.3	147	252	58.3	78	277	27.4
Manufacturing	37	60	61.7	59	85	69.5	72	99	72.7	71	89	79.6	35	100	34.0
Petroleum	20	80	25.0	38	58	65.5	83	93	89.1	37	60	61.7	3	31	19.4
All other	32	79	40.5	31	80	37.5	64	111	57.7	39	74	52.7	40	96	42.7
ERP countries	61	118	51.6	72	139	51.9	84	166	50.6	83	170	48.8	73	162	45.1
Manufacturing	48	91	52.7	51	92	54.9	60	109	55.0	66	122	54.1	55	107	51.0
Petroleum	3	7	42.9	6	13	46.2	0	23	25.0	6	13	45.5	11	18	61.1
All other	10	20	50.0	15	34	44.1	18	36	50.0	11	35	31.4	9	37	24.3
ERP dependencies	21	30	70.0	48	53	90.6	38	72	52.8	46	73	63.1	10	37	27.1
Manufacturing	(1)	(1)	100.0	1	1	100.0	2	3	66.7	3	4	75.0	1	1	100.0
Petroleum	20	28	71.4	47	52	90.6	37	64	57.8	35	61	57.4	8	30	26.7
All other	1	2	50.0	—	—	—	—	5	100.0	—	8	100.0	—	6	100.0
Other foreign countries	34	51	66.7	38	51	72.5	37	86	43.0	28	89	31.5	77	189	38.1
Manufacturing	9	14	64.3	8	23	32.6	16	28	57.1	21	46	45.7	22	45	48.9
Petroleum	18	21	85.7	9	9	100.0	3	28	10.7	—	19	—	26	68	37.3
All other	12	16	75.0	21	19	105.3	18	25	72.0	17	25	68.0	28	41	68.3

1 Less than \$500,000.

NOTE: Ratios are derived from unrounded data.

Source: U. S. Department of Commerce, Office of Business Economics.

abroad by branches and subsidiaries) and paid somewhat under \$100 million in fees and royalties to the parent companies. This would leave a margin of about \$1.7 billion for purchases of capital goods, raw materials, etc., in the United States.

The difficulty of identifying those exports from the United States which were purchased by specific foreign companies is so great as to preclude any categorical statement as to whether such exports were less than \$1.7 billion. However, an examination of the export data by country for a large number of commodities, particularly metal manufactures and various types of machinery, equipment and parts, indicates that exports to direct-investment companies were probably not more than \$1.5 billion. It seems likely, therefore, that direct investments provided somewhat more dollars to foreign countries in 1950 than were required to service them.

Although direct investments abroad probably represented a dollar gain for foreign countries in 1950 measured in this limited way, there are other aspects of the growth of direct investments which have an important effect on the balance of payments position of the United States and foreign countries but are not readily measurable. For instance, the contribution to industrial activity abroad by direct investments would be of basic importance even if the dollar costs were large. Furthermore, the dollars contributed to foreign countries by direct investments can be measured only in part by the sales of those enterprises to the United States; in addition, exports to the United States of other foreign enterprises may depend on the existence of direct investments, or the products of direct-investment companies may substitute for imports from the United States and thus save dollars.

Transfer difficulties vary by area

For individual countries or areas, there are considerable differences in the importance of the problem of transferring income. In the case of Canada, for instance, more than enough United States dollars are realized from the sale in the United States of newsprint, other forest products and nonferrous metals produced by American-controlled companies to cover all direct-investment income and other pay-

ments to the United States from that country. The same would be true of Latin America as a whole, where dollars are realized not only from the sale to the United States of petroleum, nonferrous metals, sugar, and other products by United States controlled companies, but also from the sale of petroleum and possibly other products to third countries for United States dollars. Of course, some Latin American countries are much better situated in this regard than others.

On the other hand, the ERP countries make large net dollar payments as a result of the operations of United States direct-investment companies. These companies in Europe probably produce few products which are sold in the United States, although they may export to other areas against dollar payment. In 1950 ERP countries had to finance about \$100 million of direct-investment income payments to the United States, but also had to pay out much larger amounts of dollars to buy oil, metals, and other products of direct-investment enterprises located in other areas.

However, although the ERP countries paid out dollars, on balance, to United States direct-investment companies in 1950, the factors of increased industrial productivity and dollar savings mentioned above must also be taken into account. For instance, the fact that Venezuela earns dollars from oil shipped to the United Kingdom means also that the United Kingdom can earn dollars by selling to Venezuela goods in which it has a competitive advantage over the United States. If the United Kingdom had to purchase the same amount of oil in the United States, it is doubtful if as large an amount of dollars could be recovered through exports to the United States.

TECHNICAL NOTE

The definitions of some terms used in this article are as follows:

Direct investments.—Enterprises in one country controlled by investors in another country or in the management of which foreign investors have an important voice; these are usually branch establishments or corporations in which a foreign parent company owns 25 percent or more of the voting stock. Holdings of United States residents other

than those of the controlling interest are also included in the value of direct investments abroad; similarly all foreign interests in foreign direct investments in the United States are counted as part of the direct investment.

Portfolio investments.—All other private long-term investments, including, for convenience, miscellaneous holdings such as interests in trusts and estates or bank loans.

Earnings.—Net income of direct-investment branches and subsidiaries after payment of all taxes (except withholding taxes on dividends) in the country of operation.

Income.—The amount entered in the balance-of-payments current account, which is the sum of interest and dividends for portfolio investments and dividends, interest, and branch profits for direct investments. Income from direct-investment companies excludes undistributed profits of subsidiaries which are included in earnings, and all income is taken after the payment of any foreign taxes thereon.

Rate of return.—On direct investments, the ratio of earnings during a year to the book value of investment as reflected on the books of the foreign enterprise at the beginning of the same year. The rate of return on portfolio investments is the ratio of income received to the market value of securities and face or stated value of other components.

Additions to value of direct investments.—The estimated net addition to capital investment through capital movements primarily from the parent company, and through the reinvestment of earnings. In the case of branches the net addition cannot be allocated between these two sources as accurately as for subsidiaries, due to the nature of the accounts for branches, which reflect only the net change in book value without indicating specifically the source of the funds employed. It is assumed that for branches the funds

used to increase investment are from branch earnings up to the amount of branch earnings, and any difference is assumed to result from capital movements with the home office. However, the data have been developed only for aggregate branch earnings and capital movements. An estimate derived by calculating the "reinvested earnings" for each enterprise separately and then adding these individual figures might yield quite different results.

Reinvested earnings.—In the case of subsidiaries, the amount of earnings which is retained in the business, after payment of taxes in the country of operation and of gross dividends and interest, i. e., before any taxes on such distributions. However, to some extent this is a convention since it is a common practice for dividends to be credited to the intercompany books and not actually transferred in the period in which declared, so that they are reinvested as effectively as that part of earnings not paid out. In the case of branches the designation "reinvested earnings" is less clear cut since, as noted above, increases in book value in any particular time period are considered to be derived from earnings up to the total of earnings in that period only; increases in value in excess of earnings are considered to be capital outflows from the home office and an increase in value of less than the amount of earnings would be considered to indicate a remittance of earnings to the home office to the extent of the difference, but not greater than the earnings for the period.

Data collected in the field of international investments are not accurate enough to justify drawing conclusions from changes of only a few million dollars in any of the components shown in the tables, although the data are carried to millions of dollars for arithmetic convenience.

National Income and Corporate Profits in the Second Quarter

(Continued from page 6)

In comparison with the second quarter of last year, profits before taxes were substantially higher in almost every industry. Major exceptions were food and automobiles in the manufacturing sector. In these two industries, falling profit margins (the ratio of profits before taxes to sales) were particularly evident despite larger sales. Increased sales were general throughout manufacturing.

For manufacturing as a whole, profits on a before tax basis were one-third larger than in the second quarter of 1950, reflecting a sales expansion of better than one-fifth and an over-all improvement in profit margins. The industries showing better-than-average profit rises in comparison

with the June quarter of 1950 were textiles, furniture, paper, printing, petroleum, rubber, leather, machinery (except electrical), transportation equipment except automobiles, metals and miscellaneous. Each of these industries reported sizably increased sales; and, with the single exception of transportation equipment, each demonstrated a better-than-average improvement in profit margin.

In the public utility area, profits before taxes in the second quarter were larger than in the same quarter a year ago in all major industries—railroads, telephone and telegraph, and electric and gas. Increased sales reported by all three groups were bolstered in their influence on profits by improved margins in the telephone and telegraph industry and partly offset by reduced margins in railroads and electric power and gas.

Table 2.—Percentage Distribution of National Income, 1948-50 and First Half of 1951

Item	1948	1949	Seasonally adjusted		
			1950		1951
			1st half	2d half	1st half
National income.....	100.0	100.0	100.0	100.0	100.0
Compensation of employees.....	62.7	61.5	64.0	63.7	64.3
Private.....	53.9	54.4	54.7	54.0	53.8
Government.....	8.8	10.1	9.9	9.7	10.5
Proprietors' and rental income.....	21.2	19.1	18.3	18.3	17.9
Corporate profits and inventory valuation adjustment.....	14.2	14.1	14.6	16.7	16.3
Corporate profits before tax.....	15.1	13.1	15.4	18.0	17.9
Corporate profits tax liability.....	0.8	0.7	0.7	0.6	0.7
Corporate profits after tax.....	9.3	8.0	8.4	10.6	7.2
Inventory valuation adjustment.....	-0.9	1.3	-0.9	-3.2	-4.1
Net interest.....	1.6	2.3	2.3	2.2	2.1

Source: U. S. Department of Commerce, Office of Business Economics.

Table 3.—Corporate Profits Before Tax, by Major Industries, Quarterly

Item	1950				1951	
	(Millions of dollars)					
	I	II	III	IV	I	II
All industries, total.....	7,466	9,448	11,601	12,852	12,219	11,493
Mining.....	228	216	442	462	360	374
Manufacturing.....	4,018	5,281	6,761	7,361	7,427	7,617
Durable-goods industries.....	2,105	3,066	3,700	4,400	4,065	3,817
Non-durable-goods industries.....	1,853	2,185	3,055	3,369	3,372	3,070
Transportation.....	225	450	704	733	360	406
Communications and public utilities.....	566	570	529	602	709	591
All other industries.....	2,429	2,881	3,365	3,064	3,344	3,208

Source: U. S. Department of Commerce, Office of Business Economics.